

## Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 FEAE-00 AGR-05 NSC-05

SS-15 STR-04 CEA-01 /080 W  
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R 280920Z OCT 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 0936

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E.O. 11652: N/A

TAGS: EAID ID

SUBJECT: PLANNING FOR IGGI-18

1. IN VIEW CONTINUING DOUBTS ON INDONESIAN SIDE CONCERNING FUTURE U.S. ROLE IN INDONESIAN DEVELOPMENT, BELIEVE IT ESSENTIAL THAT U.S. STATEMENT AT IGGI-18 CLEARLY INDICATE OUR INTENTION TO MAINTAIN LEVEL U.S. ASSISTANCE CITED BY U.S. REPRESENTATIVE AT IGGI-17. ALTHOUGH WE RECOGNIZE IT PREMATURE IDENTIFY SEPARATE FUNDING SOURCES WHICH MAKE UP OUR FY 76 OVERALL PROGRAM, WE ARE ALSO CONCERNED THAT INDONESIANS ALREADY AWARE OF \$40 MIL DL RECENTLY ANNOUNCED AS INCREASED REQUEST TO CONGRESS AND THAT OUR INABILITY DELIVER IN THIS COULD SUGGEST BACKING AWAY FROM EARLIER POSITIVE STATEMENTS. IN THIS CONNECTION, AS REQUESTED BY AID/W, WE ARE PROCEEDING WITH GOI REPRESENTATIVES TO DEVELOP \$40 MIL IN DEVELOPMENT LOAN PROJECTS THIS FISCAL YEAR, WITH EXPECTATION THAT AT LEAST THREE PROJECTS WILL BE READY FOR AUTHORIZATION BY DECEMBER 31, 1975. WE VIEW THIS AS MINIMUM ROLE FOR U.S. CONSONANT WITH PRESIDENT FORD'S DISCUSSIONS WITH PRESIDENT SUHARTO AT CAMP DAVID AND SUBSEQUENT DECISION SEEK MODEST EXPANSION ASSISTANCE. URGE THEREFORE EVERY EFFORT BE MADE TO SUSTAIN \$40 MILLION DEVELOPMENT LOAN LEVEL FOR INDONESIA AND THAT WE ESTABLISH THIS AS FLOOR NOTWITHSTANDING LIKELY OVERALL  
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REDUCTION IN DEVELOPMENT ASSISTANCE CATEGORY OF FY 76 FOREIGN

ASSITANCE APPROPRIATIONS BILL.

2. WE SUGGEST THAT PRESENTATION U.S. ASSISTANCE BY U.S. DELEGATION INCLUDE APPROPRIATE MENTION \$175 MILLION IN EXIM LOAN AUTHORIZATIONS (JULY 74 - OCTOBER 75). ALTHOUGH WE RECOGNIZE IT IS NOT POSSIBLE FOR EXIM BANK TO GIVE EVEN A NOTIONAL READING OF THE LEVEL OF LENDING WHICH MAY OCCUR DURING THE COMING YEAR AND LEVEL ACTIVITY WILL BE SIGNIFICANTLY LESS THIS YEAR, IT WOULD BE USEFUL TO INDICATE THAT IF THE INDONESIAN ECONOMY CONTINUES TO ADVANCE STEADILY AND IF PROJECTS PRESENTED IN FUTURE YEARS ARE AS SOUND AS THOSE PRESENTED IN THE PAST, THEN IT SHOULD BE POSSIBLE FOR EXIM BANK LENDING TO CONTINUE AT A SIGNIFICANT LEVEL.

3. GIVEN RELATIVELY LOW LEVEL OF U.S. CONCESSIONARY ASSISTANCE LIKELY TO BE AVAILABLE OVER NEXT SEVERAL YEARS, WE SHOULD MAKE GREATER EFFORT TO USE OUR INFLUENCE WITH WORLD BANK AND IGGI TO HAVE THESE INSTITUTIONS TAKE THE LEAD WITH INDONESIAN GOVERNMENT IN ADDRESSING DEVELOPMENT PROBLEMS IN AREAS OF PRIMARY CONCERN TO U.S. IN DISCUSSIONS WITH WORLD BANK CONCERNING FUTURE ROLE OF IGGI, BELIEVE IT APPROPRIATE URGE BANK TO AVOID OVERLOADING IGGI AGENDA WITH MORE DEVELOPMENT ISSUES. INSTEAD, FOCUS FUTURE MEETINGS SHOULD INCLUDE REVIEW SECTORAL DEVELOPMENT PLANS AND IMPLEMENTATION PROBLEMS. IN THIS REGARD, WE HOPE BANK COULD TAKE LEAD WITH NETHERLANDS GOVERNMENT AND GOI IN ARRANGING FOR MAJOR INDONESIAN PRESENTATION OF ITS PLANS FOR DEVELOPMENT OF RURAL AREAS. PRDSENTATION SHOULD INCLUDE EXTENT TO WHICH DOMESTIC AND FOREIGN DEVELOPMENT RESOURCES ARE NOW BEING ALLOCATED TO RURAL DEVELOPMENT AS OPPOSED TO LARGE CAPITAL PROJECTS AND HEAVY INDUSTRY. ALSO SUGGEST THAT AID/W ATTEMPT PERSUADE BANK TO TABLE AS MAJOR IMPLEMENTATION PROBLEM THE CLEARANCE OF DONOR FINANCED COMMODITIES THROUGH INDONESIAN CUSTOMS. USAID, OTHER DONORS, AND COOPERATING GOI AGENCIES ARE ENCOUNTERING INORDINATE DELAYS IN PROCESSING AID-FINANCED COMMODITIES THROUGH MYRIAD OF CUSTOMS REGULATIONS WHICH HINDER THE PACE OF PROJECT IMPLEMENTATION AND EXACERBATE PIPELINE PROBLEMS.

4. MORE DETAILED BACKGROUND MESSAGE ON INDONESIAN ECONOMIC SITUATION AND PROSPECTS WILL FOLLOW SEPTTEL. TWO ELEMENTS LIMITED OFFICIAL USE

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CURRENT SCENE ARE WORTH HIGHLIGHTING AT THIS TIME:

A) FOREIGN EXCHANGE RESERVES: ALTHOUGH BANK INDONESIA STOPPED PUBLISHING INFORMATION ON FOREIGN EXCHANGE HOLDINGS SIX MONTHS AGO, OUR BEST JUDGEMENT IS THAT NET RESERVES IN EARLY OCTOBER WERE BETWEEN ZERO AND \$200 MILLION. A PROBABLE END OF YEAR RESERVE POSITION IS SOMEWHERE BETWEEN \$500 AND \$700 MILLION WHICH IS EQUIVALENT TO LESS THAN TWO MONTHS OF IMPORTS.

B) DOMESTIC BUDGET. BUDGETARY SITUATION CURRENTLY UNDER INTENSE REVIEW BY GOI. OUR IMPRESSION IS THAT ALTHOUGH THERE WILL BE APPRECIABLE SHORT-FALL IN OIL REVENUE, OVERALL FUNDING FOR DEVELOPMENT PROJECTS SHOULD BE ABOUT WHAT WAS BUDGETED DUE TO GREATER THAN EXPECTED INCREASES IN DOMESTIC REVENUES AND LOWER THAN PROJECTED RICE AND FERTILIZER SUBSIDIES. HOWEVER, PACE OF PROJECT IMPLEMENTATION AND FUNDING REQUIREMENTS, PARTICULARLY FOR INFRASTRUCTURE ACTIVITIES, IS ACCELERATING AND BUDGETED FUNDS MAY NOT BE SUFFICIENT TO PERMIT MAXIMUM RATE OF IMPLEMENTATION. AS A RESULT, SOME AGENCIES (E.G. PLN) MAY BE FORCED SHARPLY CUT BACK IMPLEMENTATION SOME PROJECTS.

5. SINCE U.S. PLEDGE AT MAY 1975 MEETING ANTICIPATED \$30 MIL PL 480 PROGRAM THIS FY AND THIS WELL KNOWN TO INDONESIANS, WE THINK THIS LEVEL SHOULD BE MAINTAINED IF AT ALL FEASIBLE AND THAT NOTHING SHOULD BE SAID AT IGGI MEETING TO CAST DOUBT OVER INTENTION PROCEED SIGNIFICANT PL 480 PROGRAM THIS YEAR. SPECIFICALLY, WE DO NOT VIEW THE DECISION SEEK INCREASE DEVELOPMENT LOAN CATEGORY BY \$20 MIL AS SUBSTITUTE FOR PL 480.

6. REQUEST AID/W CABLE AGENDA FOR IGGI-18 AS SOON AS AVAILABLE IN ORDER PERMIT MISSION COMMENT ON SUBSTANTIVE ITEMS. DECONTROL 6/30/76. NEWSOM

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN ASSISTANCE, LOANS, PROGRAMS (PROJECTS), FINANCIAL RESERVES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 28 OCT 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975JAKART13126  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750373-0532  
**From:** JAKARTA  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1975/newtext/t19751015/aaaaamwn.tel  
**Line Count:** 141  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CunninFX  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 15 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <15 JUL 2003 by ElyME>; APPROVED <17 NOV 2003 by CunninFX>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECT: PLANNING FOR IGGI-18  
**TAGS:** EAID, ID, US, IGGI-18, (SUHARTO)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006